Surveys of Consumer Attitudes

Institute for Social Research

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SHIFTS IN FINANCIAL PORTFOLIOS OF AMERICAN HOUSEHOLDS

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Representative sample surveys of American households conducted during 1978 provide further evidence of a sustained downward trend in consumer sentiment. Heightened concern over inflation, together with declining confidence in government economic policy, has led consumers both to hold more pessimistic views of business prospects and, because of buy-in-advance price motivations, to view current buying conditions more favorably.

Since the current overall state of consumer sentiment continues to point toward declining consumer sales, and is now accompanied by more restrictive monetary policy, an understanding of consumer attitudes and expectations as well as the financial ability of households to withstand economic reversals become important topics. The level of savings and reserve funds or indebtedness reflects the ability of households to withstand temporary economic reversals.

Significant shifts in the composition of financial assets and liabilities in consumer portfolios have occurred since the early 1950s. During the past decade, slower real growth, higher rates of inflation, and depressed stock prices have prompted change in the composition of financial assets, while recent demand for housing and durables have led to record increases in mortgage debt and consumer credit. Aggregate financial data as well as household survey data on trends in financial assets and liabilities document a sharp slowdown in the rate of growth in household's financial net worth, an aggregate shift toward more liquid assets, especially in the form of time and savings accounts, and more rapid increases in liquid assets than in mortgage or consumer debt. Throughout the past two decades, time and

saving account holdings have increased by more than liabilities, yielding greater liquid assets coverage of household debts. This favorable trend has continued up through mid-1978, indicating that consumers have cautiously expanded debt relative to liquid assets. Excessive household indebtedness will thus not be a cause for prolongation of any potential recession, rather consumers financial position now provides greater flexibility to meet short term contingencies.

Growth Trends in Financial Assets and Liabilities

As of year-end 1977, the household sector had outstanding financial assets totaling a little over three trillion dollars, and outstanding liabilities of just over one trillion (Table 1). Since 1947, consumer financial assets have grown at a compound annual rate of 7.2 percent, while liabilities posted a significantly higher growth rate of 10.9 percent (Table 2). The resulting growth from 1947 through 1977 in financial assets net of liabilities was 6.2 percent per year on average.

The year-to-year change in net financial assets, as shown in Chart 1, is dominated by concurrent changes in assets rather than liabilities. In turn, the year-to-year variation in financial assets is dominated by changing values of corporate equities in household portfolios (Chart 2). Interestingly, the variation in the value of corporate equities held by households is consistently much larger than yearly variation in time and savings accounts or bond holdings. Year-to-year variations in household liabilities, in contrast, are dominated by changes in installment credit during the early part of the period, but since the early 1970's variations in home mortgages as well as all consumer credit exhibited similar time trends (Chart 3).

The 1947-1977 period can be subdivided into subperiods which differ significantly in the rate of improvement in net worth. From 1947 to 1967, growth rates in assets improved from 6.2 percent in the 1947-52 period to 9.0 percent in 1962-67, while growth rates in liabilities declined from 16.1 in 1947-52 to 8.8 percent in 1962-67. As a consequence, financial assets net of liabilities posted an increasing growth rate, going from 4.5 percent in 1947-52 to 9.2 percent in 1962-67 (see Table 2).

Since 1967 the pattern has reversed, with the growth rate in assets declining to just 5.3 percent in 1972-77, down from 9.0 percent in 1962-67, while the growth rate in liabilities climbed to 10.9 percent in 1972-77 from 8.8 percent in 1962-67. Consequently, the net financial position of consumers grew on average just 3.1 percent in 1972-77, just half the average rate of growth recorded during the entire 30 year period.

These shifts have significantly reduced the ratio of total financial assets to liabilities during the past quarter century (Chart 4). In 1977, the ratio of financial assets to liabilities was 3.0, representing a sharp and significant decline from the 8.4 posted in 1947. Although the decline in asset coverage of liabilities indicates a seriously deteriorating financial situation, this conclusion may be unwarranted because of other significant changes. Since the asset value of owner-occupied houses are not included, a more accurate comparison would exclude home mortgages from liabilities. Removing home mortgages from total liabilities does not improve the aggregate ratio of financial assets to liabilities less mortgages -- it also declined sharply from 19.7 in May 1947 to 7.7 in 1977. This results primarily from installment debt having risen somewhat faster than mortgage debt. From 1947 to 1977, mortgage and installment debt rose at an annual

rate of 11 and 12 percent respectively. Importantly, the rate of increases in both mortgage and installment debt remained high throughout the 1947-1977 period.

Composition of Household Portfolios

The composition of total liabilities has changed little over the past quarter century. In 1977, 61 percent of total household liabilities were in the form of home mortgages, somewhat more than the 57 percent recorded in 1947 (Table 3). Installment and other consumer credit, as a proportion of total liabilities, was unchanged at 29 percent in 1947 and 1977, as well as in mid-1978.

In comparison, the composition of total assets has changed dramatically during the past 30 years (see Chart 5). During this entire period, the rate of growth in time and savings accounts has averaged 9.8 percent per year (Table 2). As a result, the proportion of assets held in time and savings accounts have doubled from 15 percent in 1947 to 32 percent in 1977 (Table 3). About half of this increase came in the 25 year period to 1972, the rest occurred during the past five years when the proportion in time and savings accounts rose from 24 to 32 percent.

Holdings of equities maintained high rates of growth prior to 1967 (slightly over 10 percent per year), but since 1967 the growth in holdings of equities has declined sharply. From 1967 to 1972, the value of corporate equities in consumer portfolios rose just 4.8 percent, and during the period 1972-77 declined by 3.2 percent. Overall, the proportion of corporate equities have fallen from a high of 43 percent of total assets in 1967 to a low of 25 percent in 1977.

Pension fund reserves posted strong increases from 1947 through 1972, about 12.0 percent per year, but growth in these reserve funds was also significantly lower in the last five-year period (7.8 percent). The more rapid growth since 1972 in holdings of government and corporate bonds is due mainly to increased holdings of U.S. Savings Bonds. Interestingly, the rate of growth in demand deposits and currency holdings rose sharply since 1962, accompanying higher rates of inflation.

These shifts in the composition of total financial assets have affected the extent of debt coverage that the various assets provide. Importantly, time and savings account balances have grown at a somewhat faster rate than total financial liabilities since 1957. As shown in Table 4, the ratio of time and savings accounts to total financial liabilities has increased from 0.74 in 1957 to 0.96 in 1977 -- when time and savings accounts totalled $995.7 billion and total liabilities were $1,036.1 billion, a deficit easily exceeded by holdings of demand deposits and currency. When mortgage debt is excluded from total liabilities, in 1957 there was $1.86 in time and savings accounts for each dollar in liabilities, and this asset coverage has improved to $2.47 in time and savings balances per dollar of liabilities in 1977. This improvement in the ratio of time and savings accounts to debt indicates that households have cautiously expanded debt relative to liquid assets.

Corresponding to the increased coverage of liabilities by time and savings accounts, the coverage of total liabilities by either corporate equities or government and corporate bonds has diminished sharply since 1947 (Chart 4).

Survey of Consumer Finances

The relatively favorable trends in coverage of debt by liquid assets may be illusionary if within any given household the growth in mortgage and consumer debt is not being balanced by increased time and savings balances. Household survey data, from the 1977 Survey of Consumer Finances, indicates the widespread increase in holdings of liquid assets.

Ownership of checking and savings accounts has grown significantly over the past quarter-century, with ownership of each type of account rising from half of all households in 1951 to more than three in four in 1977 (Table 5). In the 1977 survey, just 8 percent of all households reported having no liquid assets, half as many households as in 1970. Unlike the increasing trend in both savings account ownership and savings balances, the proportion of households who reported holding corporate stocks has remained unchanged since 1970 at about one in four, in contrast to the sharp declines in total equity balances. Importantly, the ratio of liquid assets to family income, calculated at the level of individual households, has doubled from 0.06 in 1963 to 0.13 in 1977. In 1977, the median value of liquid assets held among all families was $1,675.

In contrast to the increased frequency of liquid asset holdings among households, the proportion of households having some outstanding debt in 1977 was 48 percent, unchanged from 1970 (see Table 6). More importantly, the level of outstanding debt to household income has not increased significantly. In 1977, the median household had 10 percent of their income in outstanding debt, up insignificantly from 9 percent recorded in 1970, and somewhat below the 11 percent recorded in 1963. Interestingly, in 1977, 45 percent of all households reported having outstanding installment

debt, down from 49 percent in 1970, while 31 percent reported having outstanding credit card balances as compared to 21 percent in 1970. Consequently, although the same proportion of households have outstanding debt, the composition of debt is shifting toward credit cards and away from fixed payment installment debt.

TABLE 1

TRENDS IN THE HOUSEHOLD SECTOR'S FINANCIAL ASSETS AND LIABILITIES, 1947-1977

(Year end outstanding levels -- billions of current dollars)

	1947	1952	1957	1962	1967	1972	1977	1978:2[b]
Total Financial Assets	386.6	521.5	742.2	1093.5	1688.5	2389.0	3097.4	3265.1
Demand deposits + currency	58.3	62.3	66.6	71.2	100.7	144.6	204.4	215.0
Time & savings accounts	59.9	79.8	127.3	209.3	342.9	569.2	995.7	1055.0
Government & corporate bonds	97.3	105.0	129.9	158.5	197.8	259.1	410.5	429.2
Corporate equities	101.3	170.4	267.3	437.3	720.6	913.7	777.0	824.9
Life insurance reserves	46.5	60.7	75.5	92.4	115.4	143.1	180.1	184.2
Pension funds reserves	15.0	32.6	62.7	109.3	186.4	323.0	469.8	493.1
Miscellaneous assets	8.3	10.7	12.9	15.5	24.7	36.3	59.9	63.8
Total Liabilities	45.9	96.8	171.9	266.2	405.3	616.8	1036.1	1104.3
Home mortgages	26.3	54.8	103.4	163.8	241.0	359.4	633.8	678.6
Installment credit	6.7	19.4	33.9	48.7	79.4	126.8	216.6	233.4
Other consumer credit	6.6	11.5	15.8	23.3	35.6	55.5	81.7	83.7
Miscellaneous liabilities	6.3	11.1	18.8	30.4	49.3	75.1	104.0	108.6
Total financial assets minus total liabilities	340.7	424.7	570.3	827.3	1283.2	1772.2	2061.3	2160.8
Market value of owner-occupied homes	82.0	175.6	255.1	336.2	429.5	669.2	1255.8	a

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[a] Not available.

[b] As of June 30, 1978.

Source: Federal Reserve Board.

TABLE 2

ANNUAL COMPOUNDED RATES OF GROWTH IN ASSETS AND LIABILITIES, 1947-1977

	Five-year Intervals						
	1947-1952	1952-1957	1957-1962	1962-1967	1967-1972	1972-1977	1947-1977
Total Financial Assets	6.1%	7.3%	8.0%	9.0%	7.2%	5.3%	7.2%
Demand deposits + currency	1.3	1.2	1.3	7.2	7.5	7.2	4.3
Time & savings accounts	5.9	9.8	10.4	10.3	10.6	11.8	9.8
Government & corporate bonds	1.5	4.3	4.1	4.5	5.5	9.8	4.9
Corporate equities	11.0	9.4	10.3	10.5	4.8	-3.2	7.0
Life insurance reserves	5.4	4.4	4.1	4.5	4.4	4.7	4.6
Pension funds reserves	16.8	14.0	11.8	11.3	11.6	7.8	12.2
Miscellaneous assets	5.2	3.8	3.7	9.8	8.0	10.5	6.8
Total Liabilities	16.1	12.1	9.1	8.8	8.8	10.9	10.9
Home mortgages	15.8	13.5	9.6	8.1	8.4	12.0	11.2
Installment credit	23.6	11.8	7.5	10.3	9.8	11.2	12.3
Other consumer credit	11.8	6.5	8.1	8.8	9.3	8.1	8.7
Miscellaneous liabilities	12.0	11.1	10.1	10.2	8.8	6.7	9.8
Total financial assets minus total liabilities	4.5	6.1	7.8	9.2	6.7	3.1	6.2
Market value of owner-occupied homes	16.5	7.8	5.6	5.0	9.3	13.4	9.5

TABLE 3

PORTFOLIO SHARES OF TOTAL HOUSEHOLD ASSETS AND LIABILITIES

	1947	1952	1957	1962	1967	1972	1977	1978
Total Financial Assets	100%	100%	100%	100%	100%	100%	100%	100%
Demand deposits + currency	15	12	9	7	6	6	7	7
Time & savings accounts	15	15	17	19	20	24	32	32
Government & corporate bonds	25	20	18	15	12	11	13	13
Corporate equities	26	33	36	40	43	38	25	25
Life insurance reserves	12	12	10	8	7	6	6	6
Pension funds reserves	4	6	8	10	11	14	15	15
Miscellaneous assets	3	2	2	1	1	1	2	2
Total Liabilities	100%	100%	100%	100%	100%	100%	100%	100%
Home mortgages	57	57	60	62	60	58	61	61
Installment credit	15	20	20	18	20	21	21	21
Other consumer credit	14	12	9	9	9	9	8	8
Miscellaneous liabilities	14	11	11	11	11	12	10	10

[a]as of June 30, 1978.

TABLE 4

AGGREGATE FINANCIAL ASSET/LIABILITIES RATIOS

	1947	1952	1957	1962	1967	1972	1977	1978:2[a]
Total financial assets/ total liabilities	8.42	5.39	4.32	4.11	4.17	3.87	2.99	2.96
Total financial assets/ total liabilities-mortgage	19.72	12.42	10.84	10.67	10.28	9.28	7.70	7.69
Time & savings/ total liabilities	1.31	0.82	0.74	0.79	0.85	0.92	0.96	0.96
Time & savings/ total liabilities-mortgage	3.06	1.90	1.86	2.04	2.09	2.21	2.47	2.47
Corporate equities/ total liabilities	2.21	1.76	1.55	1.64	1.78	1.48	0.75	0.75
Government & corporate bonds/ total liabilities	2.12	1.08	0.76	0.60	0.49	0.42	0.40	0.39

[a]As of June 30, 1978.

TABLE 5

TRENDS IN SELECTED FINANCIAL ASSETS AMONG HOUSEHOLDS, 1951-1977

Proportion of all families holding:	1951	1960	1963	1968	1969	1970	1977
Checking accounts	44%	60%	62%	71%	72%	75%	81%
Savings accounts	47	55	56	64	62	65	75
Certificates of deposit	a	a	a	5	5	8	14
Bonds[b]	43	32	26	26	26	28	32
Stocks[c]	9	17	20	23	23	26	25
Liquid Assets[d]							
Proportion having none	a	a	22%	19%	19%	16%	8%
Median value (all families)[e]	a	a	$400	$650	$650	$800	$1675
Median value/ median income	a	a	.084	.087	.081	.092	.122
Family asset/income ratio[g]	a	a	.060	a	a	.077	.129
Home Ownership							
Home owner[f]	a	58%	61%	60%	61%	62%	64%
Trailer owner	a	a	a	2	2	4	5
Median value owner-occupied nonfarm houses[e] (in thousands)	a	$11.1	$12.5	$15.4	$15.2	$17.8	$38.0
Median net equity[e] (in thousands)	a	a	a	$10.1	$10.2	$11.5	$27.0

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[a] Not available.

[b] Up to and including 1968 only government savings bonds are included. The ownership of other bonds was so uncommon in earlier years that these data are therefore fairly comparable. In 1970 and 1977 only 2 percent of total families owned nongovernment bonds.

[c] Includes mutual funds and investment clubs.

[d] Liquid assets include savings accounts, certificates of deposit, checking accounts, and government savings bonds.

[e] In current dollars.

[f] Includes families that own their own apartments or are joint owners.

[g] Sample median.

Note: Percentages add up to more than one hundred since families may hold more than one type of financial asset.

TABLE 6

TRENDS IN DEBT ACQUISITION, 1960-1977

	1960	1963	1965	1966	1967	1968	1969	1970	1977
Mortgage Debt[b]									
Have mortgage debt	32%	33%	37%	36%	33%	35%	34%	36%	40%
Median outstanding debt[c,e] (in thousands)	$6.4	$7.0	$8.0	$8.9	$8.4	$7.6	$9.0	$10.0	$15.6
Family debt/income ratio[e]	a	.94	a	a	a	a	a	.74	.70
Recent Purchases[d]									
Percent of buyers incurring mortgages	91%	a	81%	75%	76%	79%	76%	87%	87%
Median mortgage incurred[c] (in thousands)	$10.7	a	$11.3	$13.3	$13.0	$13.1	$13.9	$14.0	$25.0
Installment Debt									
Have debt	47%	50%	49%	49%	48%	48%	51%	49%	45%
Median debt[c,e]	a	$634	$780	$850	$880	$960	$1020	$940	$1980
Median debt/median income	a	a	0.12	0.12	0.13	0.13	0.13	0.12	0.14
Family debt/income ratio[e]	a	0.11	a	a	a	a	a	0.09	0.11
Credit Cards									
Percent using prior month	a	a	a	a	a	a	a	38%	43%
Median monthly charge[c,e]	a	a	a	a	a	a	a	$50	$100
Percent with outstanding balance	a	a	a	a	a	a	a	21%	31%
Median balance owed[c,e]	a	a	a	a	a	a	a	$105	$250
Total Debt									
Percent with debt	a	64%	a	a	a	a	a	48%	48%
Median debt all families[c]	a	$500	a	a	a	a	a	$647	$780
Family Debt/Income Ratio[e]									
All families	a	0.11	a	a	a	a	a	0.09	0.10
Debtors only	a	0.40	a	a	a	a	a	0.39	0.41

[a] Not available.

[b] Trailers are excluded.

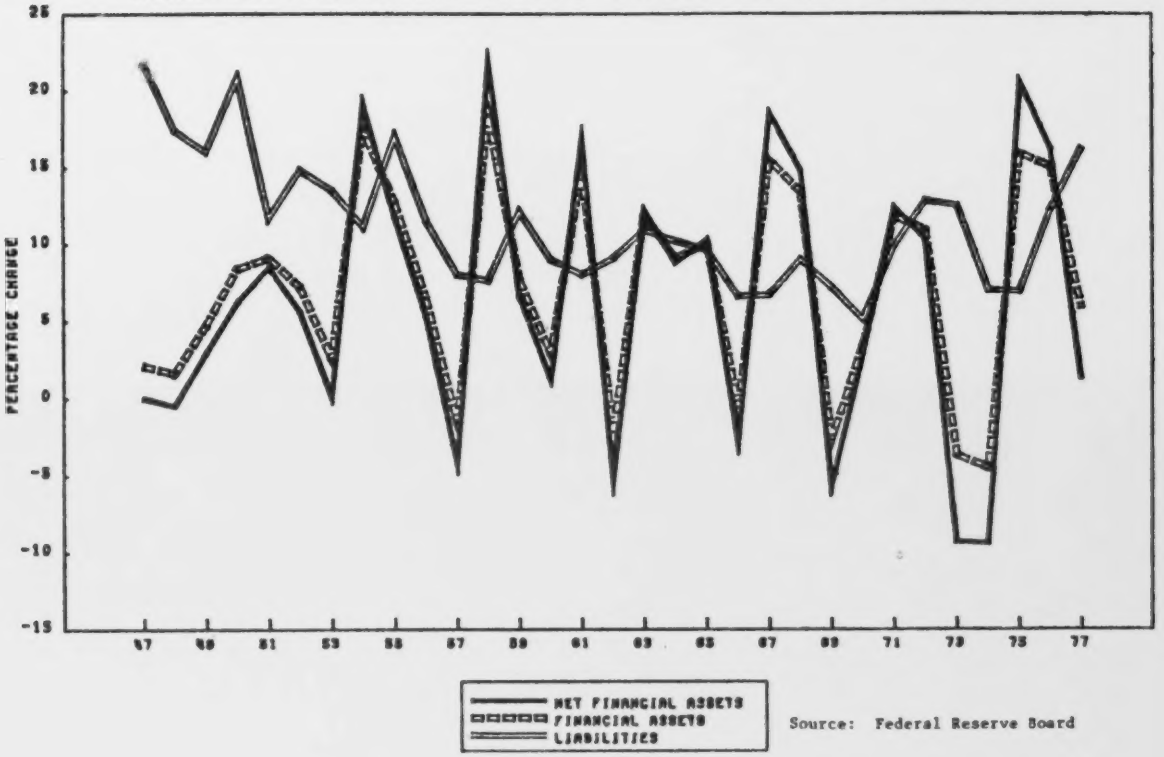
[c] Debt in current dollars.

[d] In transaction year prior to survey date.

[e] Sample median among families with indicated debt.

CHART 1

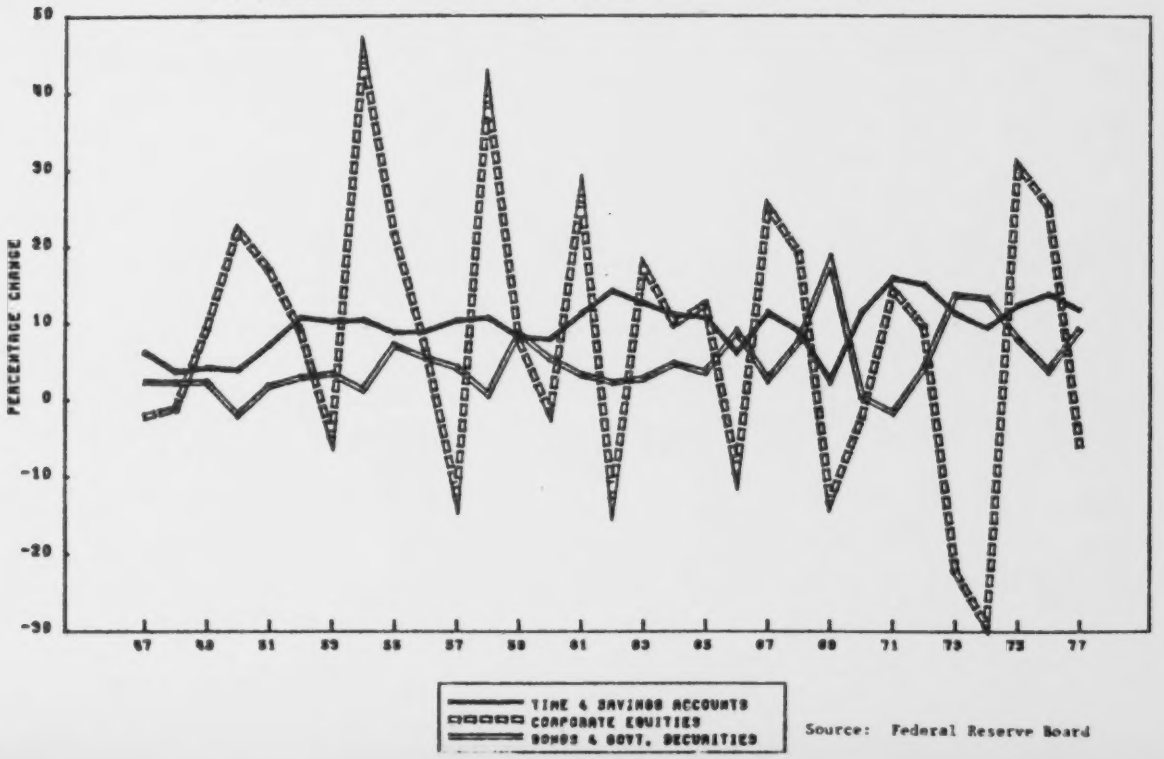
ANNUAL RATES OF CHANGE IN
HOUSEHOLD FINANANCIAL ASSETS, LIABILITIES AND NET ASSETS



Source: Federal Reserve Board

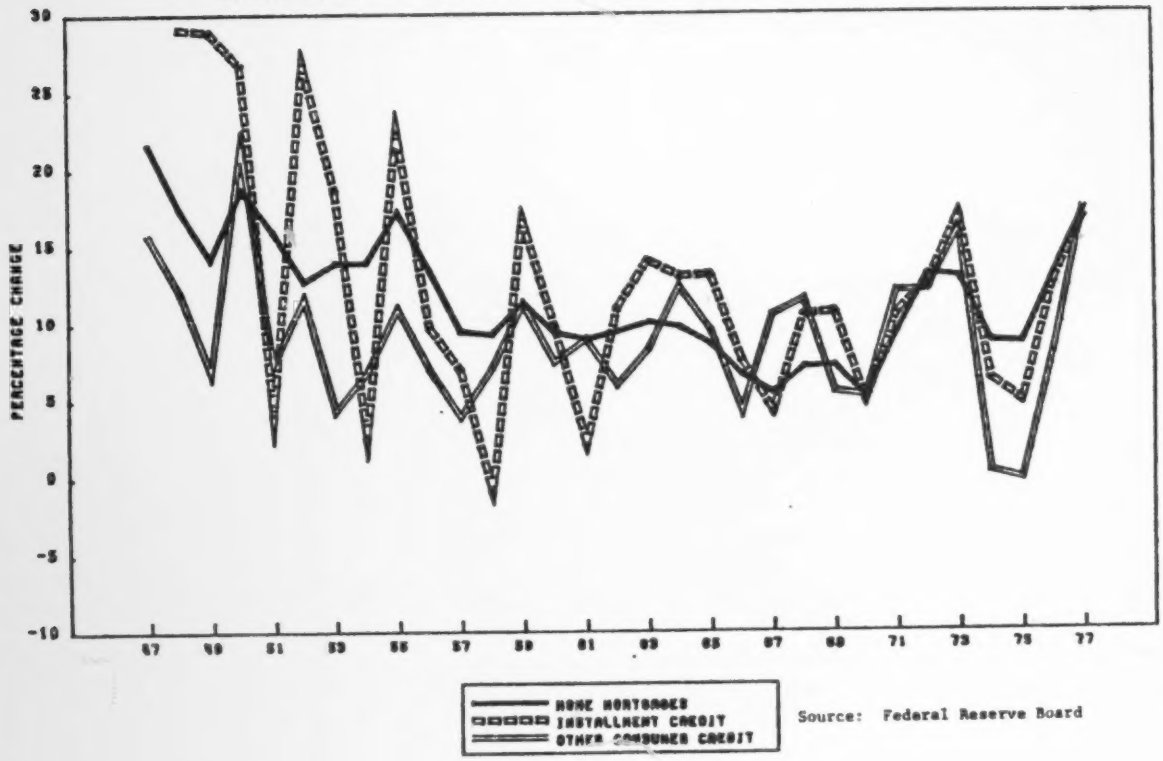
CHART 2

ANNUAL RATES OF CHANGE
IN HOUSEHOLD FINANCIAL ASSETS BY TYPE OF ASSET



Source: Federal Reserve Board

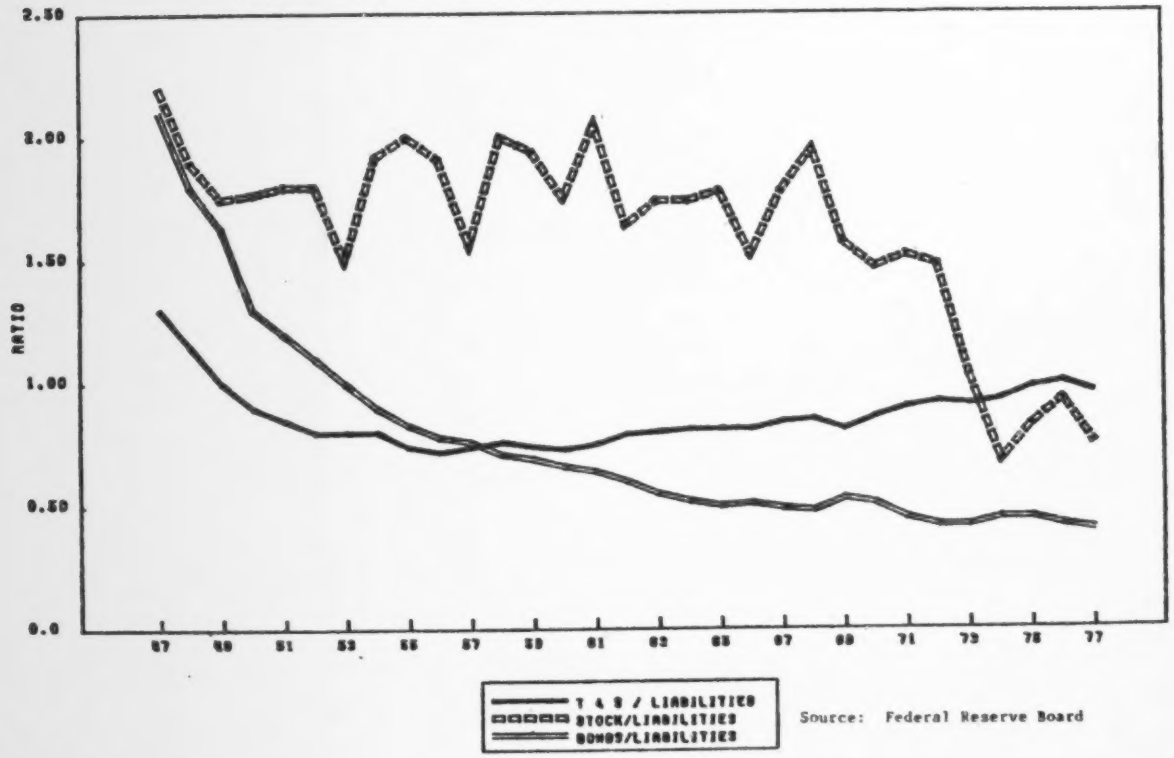
ANNUAL RATES OF CHANGE
IN HOUSEHOLD LIABILITIES BY TYPE OF LIABILITY



Source: Federal Reserve Board

CHART 4

FINANCIAL RATIOS FOR THE HOUSEHOLD SECTOR:
ASSETS TO TOTAL LIABILITIES BY TYPE OF ASSET



Source: Federal Reserve Board